



Economic Development Revolving Fund and Business Needs



**PRESENTATION TO THE
NEW MEXICO FINANCE AUTHORITY
LEGISLATIVE OVERSIGHT COMMITTEE**

JOHN BROOKS, DIRECTOR OF COMMERCIAL LENDING

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Economic Development Revolving Fund

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- ◆ The Statewide Economic Development Finance Act (“SWEDFA”) created the Economic Development Revolving Fund (“EDRF”) within the NMFA. Currently, the EDRF is used solely to fund loan participations.
- ◆ A loan participation allows NMFA to participate in a business loan by buying a portion of a loan made by a local bank
- ◆ The bank applies to the NMFA on behalf of a business by submitting the information the bank used to reach its lending decision. The bank originates and services the loan as it otherwise would, and NMFA pays a small servicing fee to the bank for the additional work
- ◆ NMFA offers a low interest rate – typically lower than the bank’s – which fills financing gaps and lowers the borrowing costs for New Mexico businesses. In short, participations allow NMFA to partner with, not compete against, local banks to fund New Mexico businesses

Economic Development Revolving Fund

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- ◆ Under amendments made to SWEDFA in 2005, NMFA may only make loans to projects determined eligible by the New Mexico Economic Development Department (“NMEDD”) and authorized by the Legislature
- ◆ Projects determined eligible are also provided certain protections from the Inspection of Public Records Act
- ◆ Legislation passed in 2011 and 2013 temporarily halted (until June 30, 2016) the authorization requirement and required reporting to the NMFA Oversight Committee. **NMFA is seeking a two-year extension to the temporary provision that substitutes reporting for legislative authorization**
- ◆ The success of the program has increased dramatically since 2011
- ◆ To date, six authorization bills have been presented to the Legislature; five of which passed both chambers. Those bills authorized 185 projects; only three of which resulted in closed participations.

Legislative Authorization History

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Year	Bill (Sponsor)	Projects Requesting Authorization	Projects Authorized	Projects Funded
2006	HB 275 (Silva)	44	44	3*
2007	SB 221 (Papen)	129	0	0
2008	HB 245 (Silva)	48	48	0
2009	SB 90 (Papen)	42	42	0
2010	SB 66 (Papen)	38	38	0
2011	SB 20 (Papen)	<u>13</u>	<u>13</u>	<u>0</u>
Total		314	185	0

*Projects:

- ◆ PreCheck, Alamogordo (2006). Status: paid in full
- ◆ Western Wood Products, Raton (2007). Status: paying as agreed
- ◆ Plaza Hotel, Las Vegas (2009). Status: foreclosed

Impact of Failed Legislative Authorization in 2007

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- ◆ The program suffered a significant loss in momentum following the failure of the 2007 authorization bill
- ◆ NMFA's outreach to communities in 2006 fruitless as a result of non-passage of bill. Several banks lost clients who had been waiting for authorization to proceed. Banks shied away from the program because of the uncertainty of authorization outcome
- ◆ NMFA became known as “difficult” as a result of the legislative authorization
- ◆ It is unclear how many of the project found alternative financing, left the state for better incentives offered by other states or lost their business opportunities

Program Success Without Legislative Authorization

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- ◆ Since the passage of the temporary provision in 2011 that substitutes reporting for legislative authorization, NMFA has successfully closed 18 projects totaling \$9,852,058
- ◆ 13 of these 18 projects would have had to wait nine months or more for the next legislative session for an authorization bill to be approved. These projects total \$7,673,988
- ◆ Since the passage of the temporary provision, momentum in the program has increased dramatically and the perception that “NMFA is difficult” has reduced significantly
- ◆ To date, NMFA has participated with 13 banks in New Mexico
- ◆ The loans made without legislative authorization are, on average, higher quality loans. Three loans have already been paid in full and the money from those participations will be used for future participations creating the revolving loan program as expected

Projects Financed Since 2011 Temporary Provision Passed

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Project Name	Loan Amount	Originating Bank	Application Date	NMFA Board Approval	Timing Issues
Haciendas at Grace Village, LLC - Mtg	\$ 357,318	Western Bank of Alamogordo	October 2011	December 2011	✗
Resources for Children & Youth	\$ 1,319,570	Century Bank	September 2011	January 2012	
Rio Grande Medical Clinic	\$ 1,000,000	Wells Fargo (Las Cruces)	February 2012	March 2012	✗
Bicycle Technologies International	\$ 1,256,000	Wells Fargo (Santa Fe)	March 2012	April 2012	✗
Star Cryoelectronics	\$ 120,000	Los Alamos National Bank	May 2012	June 2012	✗
Star Cryoelectronics	\$ 80,000	Los Alamos National Bank	May 2012	June 2012	✗
Haciendas at Grace Village, LLC - LOC	\$ 200,000	Western Bank of Alamogordo	November 2012	December 2012	
Landmark Desert Gardens	\$ 576,000	Western Commerce Bank	February 2013	March 2013	✗
Greater Albuquerque Habitat for Humanity	\$ 241,000	Wells Fargo (Albuquerque)	April 2013	June 2013	✗
Children's Garden Child Development Center	\$ 331,678	Wells Fargo (Las Cruces)	March 2013	May 2013	✗
Hampton Inn	\$ 1,479,400	Artesia National Bank	April 2013	June 2013	✗
Los Alamos Cooperative Market	\$ 119,000	Washington Federal	September 2013	October 2013	
Bicycle Technologies International	\$ 1,145,000	Bank of Albuquerque	February 2014	February 2014	✗
Bugman, Inc.	\$ 31,875	Century Bank	July 2014	August 2014	✗
Santa Fe Brewing Company	\$ 1,030,049	New Mexico Bank and Trust	March 2014	May 2014	✗
Mesa Quemado	\$ 89,500	Bank of Albuquerque	November 2014	December 2014	
Ambience Hospitality	\$ 450,000	Wells Fargo (Clovis)	October 2014	December 2014	
Gallup Pipeline & Compliance Services	\$ 25,668	Pinnacle Bank	April 2015	June 2015	✗
Totals	\$ 9,852,058				

Business & Bank Concerns With Legislative Authorization

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- ◆ Concern by the business that its proprietary information will not stay confidential during a legislative process. Many businesses require a Non-Disclosure Authorization be signed before they share any information. NMFA cannot sign Non-Disclosure Agreements
- ◆ Concern that competitors can gain access to information (for instance, the expected start or end of construction) that will give them a competitive advantage over the business that is in a legislative process
- ◆ Businesses in a legislative process could be perceived as weak by their clients or potential business partners because it is known they are seeking “help” from the state
- ◆ Concern by bankers that other banks will compete for businesses with information gained through the legislative authorization process. Banks are constantly looking for ways to compete for new customers and the legislative authorization could provide a marketing disadvantage to community banks

What are the Business Implications of Authorization?

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- ◆ Time is money
- ◆ Business-friendly timing is key. Businesses do not work on the same calendar as the Legislature
- ◆ If businesses have to wait for legislative authorization:
 - ◆ Their opportunities may be gone before their financing is complete
 - ◆ Cost of financing may increase. Pricing for the financing is based on the movement of various indicators such as the Libor, Prime and Constant Maturity Treasury Rates
 - ◆ Cost of construction may rise
- ◆ Not extending the temporary provision could impact the State's recruitment and retention rates as companies make decisions about locating or staying in New Mexico. Surrounding states do not have similar legislative authorization requirements and are therefore seen as more business friendly